

In the Matter of)
)
The BellSouth Telephone) AAD No. 93-148
Operating Companies)
)

² BellSouth Telecommunications, Inc., *Order to Show Cause*, 10 FCC Rcd 5637 (1995) (*Order to Show Cause*).

BellSouth's response.³ Only MCI Communications Corporation filed comments, and BellSouth replied on September 11, 1995. The positions of the parties to this consent decree are as follows:

- (a) The Commission found that BellSouth's actions appear to be inconsistent with its statutory obligation to maintain its accounts, records, and memoranda as prescribed by the Commission. Generally, the Commission found that BellSouth had apparently misstated or miscalculated interstate costs and revenues from January 1988 through March 1989. The Commission's specific findings included:
 - (i) The Commission found that BellSouth's calculation of Cash Working Capital apparently violated Commission rules, improperly using average daily cash balances instead of required minimum bank balances.
 - (ii) The Commission found apparent violations of its rules because BellSouth failed to separate correctly its investment in information origination/termination equipment costs in apparent violation of Part 36 of the Commission's rules.⁴
 - (iii) The Commission found a number of other apparent violations of its rules, including BellSouth's failure to provide adequate documentation to support numerous revenue and cost adjustments, and its improper inclusion of presubscription revenues for the predesignation of interexchange carriers in Account 5081, End user revenue. The independent auditor also noted that a BellSouth operating company incorrectly reported an accrual adjustment to NECA resulting in overstatement of common line revenues which would apparently violate Section 69.605 of our rules.⁵
- (b) BellSouth responded to the *Order to Show Cause* contesting liability on all counts, and asserting that no price cap index adjustment was

³ Commission Sets Pleading Schedule In Show Cause Proceedings, *Public Notice*, 10 FCC Rcd 10939 (1995).

⁴ 47 C.F.R. Part 36.

⁵ 47 C.F.R. § 69.605.

appropriate or lawful.⁶ BellSouth contests all findings in the Adjustments Report and the Commission's *Order to Show Cause*, on the following grounds:

- (i) Due to its efficient cash management practices, its average daily cash balance was, in fact, the minimum bank balance that BellSouth could maintain and still operate its business. BellSouth also contends that its average daily cash balance represented investor supplied funds that were used and useful in the operation of its business, and that BellSouth was legally entitled to include such amounts in its rate base. BellSouth also argues that it had followed a uniform practice of including its average daily cash balance in its rate base since 1977.⁷
- (ii) BellSouth used direct assignment in good faith and in reliance on the Commission's stated policy of favoring direct assignment whenever possible. BellSouth argues that the information origination/termination equipment in question was directly associated with the provision of special access service, and direct assignment represented a more cost-causative approach than allocation of a portion of these costs to common line.⁸
- (iii) During the transition from Part 67 to Part 36 separations rules, an input error occurred that affected the separations factors for cable and wire facilities in the states of Alabama, Louisiana and Mississippi. As a result, the interstate revenue requirement was overstated by approximately \$1 million and the intrastate revenue requirement was understated by the same amount. BellSouth contends that the impact of the error ceased with the introduction of a new basic factor for these three states on July 1, 1990 and that the error did not affect BellSouth's initial price cap indexes.⁹
- (iv). The independent auditor identified 22 instances in which it

⁶ BellSouth Response to Order to Show Cause, filed herein May 2, 1995; BellSouth Reply Comments, filed herein September 11, 1995.

⁷ BellSouth Response to Order to Show Cause, at 6-16.

⁸ *Id.* at 16-26.

⁹ *Id.* at 26-31.

concluded that BellSouth provided inadequate documentation and, based on this, the *Order to Show Cause* tentatively found that BellSouth failed to maintain adequate controls to comply with Part 32. BellSouth states that the independent auditor reviewed over 3,000 adjustments to the common line pool. BellSouth also states that there was no suggestion by the auditor that the entries in question were erroneous: these were documentation issues only and the items cited as documentation errors were extremely minor and in many cases BellSouth has no business reason to maintain formal documentation for the particular types of transactions in question.¹⁰

- (v) A human error occurred in which a \$169,000 accrual adjustment was reported with the wrong sign, resulting in BellSouth overstating common line revenue in September, 1988 by \$338,000. BellSouth therefore under-recovered from the common line pool in this amount. The *Order to Show Cause* cites this error as an example of allegedly deficient internal controls. BellSouth asserts that this was a case of simple human error that did not recur and had no impact on BellSouth's initial price cap indexes.
- (vi) BellSouth states that the rules for the treatment of presubscription revenues for the predesignation of interexchange carriers were never clear. While BellSouth now agrees to accept the interpretation of Ernst and Young that these revenues were more properly associated with switching and therefore should be excluded from common line pool reporting, BellSouth could find no authoritative interpretation from the period under review that specified the proper treatment of these revenues. BellSouth asserts that the rules were ambiguous and that BellSouth made a good faith interpretation of the rules to determine the proper treatment of these revenues. In any event, presubscription revenues are excluded from price caps.¹¹

4. The Commission and BellSouth agree that the expeditious resolution of issues raised by the Adjustments Report and the Commission's *Order to Show Cause* in

¹⁰ *Id.* at 31-39.

¹¹ *Id.*, at 43-47.

accordance with the terms of this Consent Decree is in the public interest.

5. Accordingly, and in consideration of the agreement of the Commission and BellSouth to conclude action on the *Order to Show Cause* on the terms set forth in this Consent Decree, BellSouth agrees to act as specified below:

- (a) BellSouth agrees to correct any past accounting and recordkeeping deficiencies that might have caused the apparent violations set forth in paragraph 3 of this Consent Decree;
- (b) BellSouth agrees to establish procedures to prevent the specific apparent deficiencies from recurring in the future;
- (c) BellSouth agrees not to include revenues from customers for the predesignation of their primary interexchange carrier in Account 5081, and shall instead include these revenues in Account 5082, in compliance with the Commission's rules;¹²
- (d) BellSouth agrees to conduct an independent audit of its internal accounting controls as specified in Attachment A of this Consent Decree;

6. In the event BellSouth fails to comply with the requirements set forth in paragraph 5 and Attachment A of this Consent Decree, the Commission reserves the right to pursue legal action against BellSouth. If BellSouth complies with the terms set forth in paragraph 5 and Attachment A of this Consent Decree, then the accounting treatments, procedures and documentation adopted in compliance with paragraph 5 and Attachment A shall be regarded by the Commission as presumptively reasonable and lawful. The Commission, however, reserves its rights under law to change accounting requirements prospectively and retroactively as long as no penalty attaches to such retroactive application. Likewise, BellSouth shall be authorized to make changes to its accounting treatments, procedures and documentation to implement or reflect changes in the law or rules or waivers of the Commission's rules, and shall not thereby be in violation of any part of this Consent Decree.

7. In light of BellSouth's covenants and representations contained in paragraph 5 and Attachment A of this Consent Decree, and in express reliance thereon, the Commission has issued a final order formally authorizing the Secretary to execute this Consent Decree ("Consent Decree Order") without change, addition or modification and

¹² See 47 C.F.R. §§ 32.5081 and 32.5082.

without a finding of wrongdoing, violations or liability by BellSouth and further agrees not to begin, on the motion of the Commission or its staff, any proceeding formal or informal, concerning matters that were the subject of the Adjustments Report. Nothing herein, however, shall preclude the Commission from using the information underlying the findings and observations in the Adjustments Report for other lawful regulatory purposes provided that BellSouth shall have all opportunities afforded by law to contest that use and that information.

8. BellSouth admits the jurisdiction of the Commission to adopt this Consent Decree.

9. BellSouth waives any rights it may have to judicial review, appeal or rights otherwise to challenge or contest the validity of the Consent Decree Order, provided the Commission adopts this Consent Decree without change, addition or modification.

10. The Parties agree not to engage in conduct inconsistent with the terms of this Consent Decree. The Parties may comment publicly, however, on the nature of the Consent Decree, and the merits of their respective positions, after it has been adopted by the Commission.

11. It is understood that BellSouth's agreement to this Consent Decree does not constitute an adjudication of any factual or legal issues or an admission by BellSouth of wrongdoing, violations or of any inconsistency between its position, on the one hand, and, on the other hand, (i) the Communications Act of 1934, as amended, and (ii) the rules and policies of the Commission. As a result, BellSouth shall not be precluded or estopped from litigating *de novo* any and all of the issues subject to this Consent Decree in any forum, except as provided herein.

12. The Parties agree that this Consent Decree and the Consent Decree Order may not be used in any fashion by either of the Parties to this Consent Decree in any legal proceeding except as set forth in this Consent Decree.

13. Adoption by the Commission of this Consent Decree shall conclude action in the proceeding commenced by the *Order to Show Cause*, 10 FCC Rcd 5637, and the Adjustments Report without a finding of wrongdoing, violations or liability on the part of BellSouth. The Parties agree that the effectiveness of this Consent Decree is expressly contingent upon issuance of the Consent Decree Order described herein, and compliance by BellSouth with the terms of this Consent Decree. If this Consent Decree is not signed by BellSouth and the Commission, or is otherwise rendered invalid by any court of competent jurisdiction, it shall become null and void and may not become part of the record in this proceeding.

14. If the Commission brings an action in any court of competent jurisdiction to enforce the terms of the Consent Decree order or the Consent Decree, BellSouth agrees that it will not contest the validity of either the Consent Decree Order or the Consent Decree, will waive any statutory right to contest the validity of the Consent Decree Order or this Consent Decree through a trial *de novo*, and will consent to a judgment incorporating the terms of this Consent Decree without change, addition or modification provided, however, that the Commission has complied with all of its obligations under the Consent Decree.

15. This agreement may be signed in counterparts.

FEDERAL COMMUNICATIONS COMMISSION

By: William F. Carter

Acting Secretary

Signed this 21st day of October, 1996

BELLSOUTH TELECOMMUNICATIONS, INC.

By: _____

Its _____ (Title)

Signed this _____ day of October, 1996

Attachment A**Independent Review of BellSouth Internal Controls**

BellSouth will engage an independent auditing firm to review the adequacy of internal controls associated with the automated and manual input processes related to the company's Part 36 separations system. The scope of this independent review will be the following three areas:

1. Review of existing internal processes that enable detection and correction of accounting errors on a timely basis;
2. Review of automated systems that have served to eliminate or reduce the potential for clerical errors and that provide an appropriate trail for data verification; and
3. Review of controls and processes for appropriate implementation of the Commission's rules and related interpretations.

The independent review will be completed within one year of the release of the Commission's Consent Decree Order.

Upon completion of the review, BellSouth will submit to the Commission an implementation plan for each recommendation which the independent auditing firm determines has the potential for material impact on the results of the company's cost allocations. All aspects of the implementation plan will be instituted no later than 180 days after the independent review is completed.

GLC-2

STAMP and RETURN

M. Robert Sutherland
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Legal Department

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October 28, 1997

RECEIVED

OCT 28 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

Dear Mr. Caton:

Pursuant to Paragraph 5(d) of the Consent Decree, AAD No. 93-148, dated October 24, 1996, entered into by the Federal Communications Commission ("Commission") and BellSouth Telecommunications, Inc. ("BellSouth"), BellSouth is hereby filing a copy of the independent audit report of Coopers & Lybrand, L.L.P. This Consent Decree concerns the final resolution of the National Exchange Carrier Association, Inc. ("NECA") audit conducted by Ernst & Young.

The Coopers and Lybrand report covers their review of the adequacy of BellSouth's internal controls associated with the automated and manual input processes related to the company's Part 36 separations system. This independent review was conducted in conformance with the requirements in Attachment A to the above-referenced Consent Decree.

A copy of this report is being filed with the Accounting and Audits Division and a copy is being served upon the International Transcription Service (ITS).

If you have any questions concerning this report, please contact Ms. Mary Henze at (202) 463-4109

Sincerely,



M. Robert Sutherland

MRS/cj

cc: Chief, Accounting and Audits Division
ITS

Report on Internal Control Over the Jurisdictional Separations Process Table of Contents

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APPENDIX

Internal Control - Integrated Framework of the
Committee of Sponsoring Organizations of the
Treadway Commission

Independent Accountant's Report

We have examined management's assertion that BellSouth Telecommunications, Inc. maintained an effective internal control structure over its jurisdictional separations process as of May 31, 1997, included in the accompanying BellSouth Telecommunications, Inc. Report on Internal Control Over The Jurisdictional Separations Process.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control structure over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control structure, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure over financial reporting to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that BellSouth Telecommunications, Inc. maintained an effective internal control structure over its jurisdictional separations process as of May 31, 1997, is fairly stated, in all material respects, based upon criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

This report is intended solely for the use of BellSouth Telecommunications, Inc. and the Federal Communications Commission and should not be used for any other purpose.

Coopers & Lybrand L.L.P.

Atlanta, Georgia

October 2, 1997



BellSouth Telecommunications, Inc. 404 927-7055
Suite 4503
675 West Peachtree Street, N.E.
Atlanta, Georgia 30375

Isaiah Harris
Vice President and CFO

Report on Internal Control Over the Jurisdictional Separations Process

BellSouth Telecommunications, Inc. maintains a system of internal control over its jurisdictional separations process, which is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation of reliable regulatory financial reports. An overview of the Jurisdictional Separations Process is included in Section III of this report. Internal control over the jurisdictional separations process is a process affected by the Company's Chief Financial Officer and other personnel and is described in sections IV through VIII of this report.

The Company maintained an effective internal control structure over its jurisdictional separations process as of May 31, 1997, based upon criteria established in the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

BellSouth Telecommunications, Inc.

A handwritten signature in cursive script that reads "Isaiah Harris".

Isaiah Harris
Vice President and Chief Financial Officer

October 2, 1997

III. Overview of Jurisdictional Separations Process

BellSouth Telecommunications, Inc. ("BellSouth") is a regulated telephone company. Its regulators have historically based the Company's pricing rates on the cost of the services provided. Since the Company provides both interstate and intrastate services, it is necessary to apportion its expenses and investment to the state and interstate jurisdictions. Since most telephone plant is used jointly in the provision of interstate and intrastate services and because the expenses incurred are also joint in nature, the determination of the jurisdictional investment and expense is a complex process. The requirements of the jurisdictional separations process and its financial reports are defined by rules and regulations of the Federal Communications Commission.

The jurisdictional separations process gathers financial inputs from the financial accounting systems and statistical inputs from network and billing systems. These inputs are processed by the Separations Information System which applies the specific jurisdictional apportionment algorithms.

The activities which comprise the Jurisdictional Separations Process are:

- .. Input of financial and statistical data to the Separations Information System.
- .. Operations of the Separations Information System including security, and program changes.
- .. Procedures for maintaining the logic of the Separations Information System such that their processes and financial reporting output conform to Federal Communications Commission requirements.
- .. Creation and input of adjustment transactions processed by the Separations Information System.
- .. Monitoring and evaluation of output data from the Separations Information System.

The Jurisdictional Separations Process as defined above is integrally related to the Company's overall financial accounting processes. For example, payroll transactions ultimately posted to final accounts are separated to regulatory jurisdictions. However, processing and monitoring of payroll transactions are not included in the Jurisdictional Separations Process as defined above. Consequently, controls over processing and monitoring of payroll transactions are not included in the description of Internal Controls Over The Jurisdictional Separations Process. Only controls over the Jurisdictional Separations Process as defined above are included.

IV. Control Environment

Integrity and Ethical Values

Internal Controls - Integrated Framework Criteria:

Management must convey the message that integrity and ethical values cannot be compromised, and employees must receive and understand that message. Management must continually demonstrate, through words and actions, a commitment to high ethical standards.

BellSouth Control Elements:

All employees are required to read and sign the BellSouth Code of Business Ethics and Conduct - A Commitment to our Personal Responsibility on a yearly basis. Topics in this code of conduct include:

- Creating and Maintaining a Positive Working Environment
- Building Relationships with Customers, Shareholders, Competitors and Suppliers
- Protecting Intellectual Property and Proprietary Information

The Separations Group conducts an "open meeting" annually with all employees of the group in which the BellSouth Code of Conduct and Business Ethics is discussed. Additionally, the Separations Directors recommended that BellSouth Security conduct a workshop for all Separations employees to review the security guidelines relative to the proper handling of intellectual property, company assets and proprietary information. The workshops were held in Atlanta and Birmingham in February 1996. The Company's position on integrity and ethical values is disseminated through a formal presentation. Based on these controls, employees understand what behavior is acceptable or unacceptable, and know what to do if they encounter improper behavior.

- Integrity and ethical values is a criterion in the performance appraisal process.
- Management has expectations of honesty, fairness and integrity from employees in dealings with fellow employees, internal/external auditors, Public Policy, FCC, etc.
- Established channels of communications, including voice mail, e-mail, exit interviews, group and individual meetings and management's open door policy, are available for employees to report any suspected improprieties.
- Management responds to violations of behavioral standards. Any departures from approved policies are initially handled through questioning and investigation. Based on severity, the employee is either counseled and reprimanded or immediately dismissed.
- Management does not override established controls.
- Controls are periodically restructured for changed conditions (i.e., new regulatory information being provided to the Separations Group).

IV. Control Environment, continued:

Commitment to Competence

Internal Control - Integrated Framework Criteria:

Management must specify the level of competence needed for particular jobs, and translate the desired levels of competence into requisite knowledge and skills.

BellSouth Control Elements:

- Job descriptions are established, and job responsibilities are formally documented by the Company.
- The Separations Group has also performed a "critical skills" Skills Profile and Success Factors Profiling analysis for each job/position which identifies the training and job skills required to perform a given job. This helps identify any gaps in knowledge and is useful during this time of headcount reductions resulting from the Company's downsizing.
- Key managers fully understand the telecommunications industry and their related responsibilities. These responsibilities are implemented through the budgeting process, which focuses upon various risk areas and the necessary resources to adequately address the risk.
- Experience among Separations Group employees averages 23 years. Overall, BellSouth employees have a term of employment averaging 21 years.
- Specific training (e.g., WORD, EXCEL, Project Management, EDA/SQL, Fundamentals of Finance), offered through the Company, is recommended for each Job Function.

IV. Control Environment, continued:

Management's Philosophy and Operating Style

Internal Control - Integrated Framework Criteria:

The philosophy and operating style of management normally have a pervasive effect on an entity. These are, of course, intangibles, but one can look for positive or negative signs.

BellSouth Control Elements:

- There has been a high level of turnover in management and supervisory personnel in the Separations Group, due to the Company's workforce reduction efforts (downsizing). During this reduction, extended efforts have been made in keeping those with significant experience in the key management jobs. The average years of experience in the Separations Group is 13 years.
- Rule interpretation/rate base issues are looked at closely by many people including the Regulatory Group, Public Policy, Legal Counsel, and the Separations Information Systems Group.
- The Company has historically been highly methodical in its decision making process, gathering as much useful information as possible.

Organizational Structure

Internal Control - Integrated Framework Criteria:

The organizational structure should not be so simple that it cannot adequately monitor the enterprise's activities nor so complex that it inhibits the necessary flow of information. Executives should fully understand their control responsibilities and possess the requisite experience and levels of knowledge commensurate with their positions.

BellSouth Control Elements:

- The structure of the Company facilitates the flow of information across all business activities. For example, regulatory and industry developments are provided to appropriate personnel within the Company as up-to-date information becomes available.
- The organizational structure is designed according to the needs of the organization.
- A sufficient number of employees exists, particularly in management and supervisory capacities, for day-to-day responsibilities in the Separations Group.

IV. Control Environment, continued:

Assignment of Authority and Responsibility

Internal Control - Integrated Framework Criteria:

The assignment of responsibility, delegation of authority and establishment of related policies provide a basis for accountability and control, and set forth individuals' respective roles.

BellSouth Control Elements:

- Authority, delegation of authority and assignment of responsibility at a management level are commensurate with the job. Management attempts to give employees responsibility that is commensurate with their capabilities.
- The determination of the level of authority and scope of responsibility assigned to an individual are a team effort involving both the employee and management.
- A detailed level of job description is available to ensure they contain specific references to control-related responsibilities.

Human Resource Policies and Practices

Internal Control - Integrated Framework Criteria:

Human resource policies are central to recruiting and retaining competent people to enable the entity's plans to be carried out so its goals can be achieved.

BellSouth Control Elements:

- The Company has well-defined hiring and promotion policies and procedures for both management and non-management employees.
- The appraisal/compensation review process is performed for all employees on an annual basis.
- Specific training, offered through the Company, is recommended for each Job Function. Training is performed by the Separations Group on an as-needed basis.
- Expectations of job responsibilities are communicated on a formal basis through the annual appraisal process and through written job descriptions. It is also communicated on a day-to-day basis through informal discussions.
- Employee candidate background checks are performed with regard to prior actions or activities considered to be questionable to the Company.

V. Information and Communication:

Information

Internal Control - Integrated Framework Criteria:

Information is identified, captured, processed and reported by information systems. Relevant information includes industry, economic and regulatory information obtained from external sources, as well as internally generated information.

BellSouth Control Elements:

- To obtain external information relevant to the Company, the Regulatory Group provides current docket information, the Director of Federal Regulatory in Washington, DC. obtains current developments from the FCC, and the Industry Issues Group provides up-to-date information about the telecommunications industry.
- Revisions to the Separations Information System are directly linked to changes in the Regulatory environment. The latest significant update to the Separations Information System was made in September 1995, to implement the reclassification of Account 2004 to 2003. Per FCC order (Docket 93-50), with relation to Telephone Plant Under Construction and Allowance for Funds Used During Construction, the distinction between short term (Account 2003) and long term (Account 2004) was eliminated, and all of Account 2003 is now included in the rate base.

Communication

Internal Control - Integrated Framework Criteria:

Communication is inherent in information processing. Communication also takes place in a broader sense, dealing with expectations and responsibilities of individuals and groups. Effective communication must occur down, across and up an organization and with parties external to the organization.

BellSouth Control Elements:

- The Separations Group holds departmental meetings 2 times per year. Topics discussed at these meetings include business concerns and new or pending issues, as well as the potential impacts on the Company.
- Monthly meetings are held to discuss prior month processing and items/issues needing immediate attention.

V. Information and Communication, continued:

- Lines of communication exists across the organization (i.e., Part 64 Group, Separations, Accounting Standards, Treasury, Corporate Books) to facilitate timeliness of information.
- It is management's intention to respond to communications received from external parties (i.e., state regulators, FCC, internal and external auditors) on a timely basis and to perform appropriate follow-up.

VI. Risk Assessment:

Internal Control - Integrated Framework Criteria:

An entity's risk-assessment process should identify and consider the implications of relevant risks, at both the entity level and the activity level. The risk-assessment process should consider external and internal factors that could impact achievement of the objectives, should analyze the risks, and provide a basis for managing them. Economic, industry and regulatory environments change and entities' activities evolve. Mechanisms are needed to identify and react to changing conditions.

BellSouth Control Elements:

Managing Change - Internally

- Management holds meetings to discuss long-range plans.
- Upper management, including the audit committee and the Board of Directors, request, annually, a risk-assessment presentation by management, internal audit, and the external auditors.
- When employees are terminated, passwords, security badges and credit cards are canceled.

Managing Change - Externally

FCC Rule Changes:

- Regulatory is linked closely to FCC releases.
- Director of Federal Regulatory communicates up-to-date FCC developments as they occur.
- FCC information/rule changes are acted upon by Separations directors and managers.

Industry Changes:

- Industry Issues Group distributes information on upcoming issues to the Separations Group at quarterly meetings.
- Impacts of the Telecommunications Act of 1996 are currently being assessed.

VII. Control Activities:

General Controls

A. IT Control Policies and Procedures

Systems Development and Maintenance

Control Objective:

Control policies and procedures provide reasonable assurance that all requests for application changes are appropriately considered and processed.

Description of Policies and Procedures

- Change Requests are created in two ways:
 1. The Methods Group (which is responsible for monitoring regulatory requirements) initiates a Change Request (RECYCLE) to conform with changing legal requirements. Changes are directed to the SIS Project Manager.
 2. The SIS Project Manager initiates a request to enhance or repair a program. SIS is a legacy system that was initiated in the early 1970's. The system is very stable, requiring minimal changes.
- All Change Requests are completed on an approved form (SIS System Change), initiated by the SIS Project Manager, and then forwarded to the IT programming group.
- Change requests are recorded into the Change Request Log, and any required work is initiated at that time.

Control Objective:

Control policies and procedures provide reasonable assurance that program changes are adequately tested to ensure they achieve the users' requirements and do not negatively impact existing processing.

Description of Policies and Procedures

- All program changes are tested in a test environment prior to being moved into production. The test bed is updated with a copy of the production databases at least once a year.
- Requests require the testing approval of the SIS Project Manager. The SIS Project Manager and programmer determine the level of testing required, based on the nature of the change.
- SIS uses Panvalet for library and file control. The compilation code date is compared to the test code date to ensure that the proper version of code is being moved to production.

VII. Control Activities, continued:

Control Objective:

Control policies and procedures provide reasonable assurance that program changes are adequately tested to ensure they achieve the users' requirements and do not negatively impact existing processing.

Description of Policies and Procedures, continued

- SIS maintains only one copy of the source code in the production libraries and one copy in the test libraries. Different naming conventions are used to handle the code as it is being modified.
- Procedures for testing and Final Product Acceptance, per the "SIS Change Control Procedures" are thoroughly documented.

Control Objective:

Control policies and procedures provide reasonable assurance that the transfer of programs into the live environment is appropriately controlled.

Description of Policies and Procedures

- SIS uses Panvalet to manage libraries and files. The compilation code date is compared to the test code date to ensure that the code being moved to production is the proper code that has passed testing.

Control Objective:

Control policies and procedures provide reasonable assurance that both user and technical documentation is updated accordingly to reflect application changes. In addition, users and IS staff should receive appropriate training when their responsibilities are impacted by application changes.

Description of Policies and Procedures

- The SIS Project Manager is responsible for the SIS User Training Manual and maintaining the technical levels of documentation. Systems flows, Module and Job procedures are maintained and updated with any system modification implemented into production. The SIS Project Manager coordinates training specific to SIS on an as-needed basis.

VII. Control Activities, continued:

Access

Control Objective:

Control policies and procedures provide reasonable assurance that management implements access control policies, which are based on the level of risk arising from access to programs and data.

Description of Policies and Procedures

- The security of the SIS group is externally controlled, with the exception of access authorization.
- Managers approved for granting access are on file. The SIS manager determines which employees need access to data. A request is forwarded to the SIS Security Manager who grants IMS access and develops a security-ID for the on-line capabilities approved.
- SIS has ownership of its programs and files. The IT manager grants program access (currently limited to one) and the Database Administration Group maintains the functionality and integrity of the databases.

Control Objective:

Control policies and procedures provide reasonable assurance that logical access to the computer system, application programs and data is appropriately restricted to ensure segregation of duties and prevent unauthorized activity.

Description of Policies and Procedures

- SIS utilizes IMS security and system level security.
- IMS security passwords must be changed every 60 days.
- The SIS IT manager has determined that the only individual allowed access to the source code is the programmer.
- The SIS Operations group has less than 5 full-time employees, and the SIS Project Manager can easily identify and act on changes in employment status. The group is stable, with very few changes in user access requirements.
- A second level of security is the SIS security-ID, which identifies which capabilities and company access are allowed. This security-ID password is separate from the IMS security password.

VII. Control Activities, continued:

Control Objective:

Control policies and procedures provide reasonable assurance that logical access to the computer system, application programs and data is appropriately restricted to ensure segregation of duties and prevent unauthorized activity.

Description of Policies and Procedures, continued

- SIS does not control remote access, beyond the SIS security passwords mentioned above. The IT department controls the networks and network security. The networks bring the user to the same IMS and SIS security panels as previously mentioned.

Control Objective:

Control policies and procedures provide reasonable assurance that physical access to computer equipment, storage media and program documentation are limited to properly authorized individuals.

Description of Policies and Procedures

- BellSouth maintains identification card entry and has security guards at both Atlanta and Birmingham.
- Only authorized employees are allowed access to SIS via sign-on commands and passwords.

VII. Control Activities, continued:

Control Objective:

Control policies and procedures provide reasonable assurance that up-to-date backups of programs and data are available in emergencies.

Description of Policies and Procedures

- SIS maintains a fully documented Disaster Recovery Procedure (commonly known as the Contingency Processing Plan).
- SIS performs daily backups of Group 1 (libraries not included in groups 2-4 below) if changes have occurred and every 25 days if no changes have occurred. A backup is sent off-site every thirty days.
- Group 2 (Panvalet libraries) are backed up daily, weekly and monthly. Daily backups contain fourteen generations, weekly five generations and monthly thirteen generations. The minus-1 generation of the monthly backup is sent off-site.
- Group 3 (Miscellaneous libraries) that reside in the library pool are backed up daily and vaulted weekly. Libraries in the Primary pool are backed up daily, but not vaulted.
- Group 4 (SIS Databases) - Two SIS image copies are taken weekly with one copy sent off-site. Microfiche is also maintained off-site.

Control Objective:

Control policies and procedures provide reasonable assurance that operational failures are identified, resolved in a timely manner and, where appropriate, approved retrospectively by appropriate SIS staff and users.

Description of Policies and Procedures

- SIS has well-documented escalation procedures as noted in the "SIS Backup and Recovery Plan."
- The Project Manager and programmer become immediately involved in the resolution and operational failures relating to SIS.
- The Project Manager is immediately notified by the mainframe operators in the event of operational failure during an SIS job or process. The nature and maturity of the SIS jobs and batches help keep the number of operational failures extremely low. The nature of SIS programs requires that the cause be corrected in order to continue with the ordinary course of business.